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INDEPENDENT FACTORS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 1985

DUNWOODY & COMPANY



Internationally
DUNWOODY ROBSON McGLADREY & PULLEN
Chartered Accountants
1408 Canyon Street, P.O. Box 1175, Creston, B.C.,
Canada V0B 1G0
Telephone: (604) 428-2248

AUDITORS' REPORT

TO THE SHAREHOLDERS

INDEPENDENT FACTORS LTD.

We have examined the consolidated balance sheet of Independent Factors Ltd. as at 31 December 1985 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at 31 December 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Creston, B.C.
17 March 1986

Dunwoody & Company
CHARTERED ACCOUNTANTS

INDEPENDENT FACTORS LTD.

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 1985

	<u>1985</u>	<u>1984</u>
ASSETS		
CURRENT		
Cash	\$ 93,704	\$ 96,523
Marketable securities	5,227	18,173
Accounts receivable	989,834	701,492
Inventories	1,806,483	1,444,803
Prepaid expenses	14,044	10,960
	<u>2,909,292</u>	<u>2,271,951</u>
LONG TERM INVESTMENTS	224,021	216,395
FIXED, note 2	608,415	480,208
GOODWILL, note 3	<u>23,851</u>	<u>24,734</u>
	<u>\$3,765,579</u>	<u>\$2,993,288</u>
LIABILITIES		
CURRENT		
Bank indebtedness, note 4	\$ 332,041	\$ 197,364
Accounts payable	574,915	553,229
Income taxes	76,008	52,859
Current portion of long term debt	<u>85,595</u>	<u>49,064</u>
	1,068,559	852,516
LONG TERM DEBT, note 5	225,955	128,390
MINORITY INTEREST	<u>303,262</u>	<u>202,599</u>
	<u>1,597,776</u>	<u>1,183,505</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL, note 6	1,192,661	1,117,019
CONTRIBUTED SURPLUS, note 7	44,025	-
RETAINED EARNINGS	<u>931,117</u>	<u>692,764</u>
	<u>2,167,803</u>	<u>1,809,783</u>
	<u>\$3,765,579</u>	<u>\$2,993,288</u>

SIGNIFICANT ACCOUNTING POLICIES, note 1
 CONTINGENT LIABILITIES, note 8
 DIRECTORS REMUNERATION, note 9

Approved on behalf of the Board:

Dennis Shew, Director

Dennis Shew, Director

INDEPENDENT FACTORS LTD.

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED 31 DECEMBER 1985

	<u>1985</u>	<u>1984</u>
SALES	\$5,952,015	\$4,431,047
COST OF SALES, SELLING AND ADMINISTRATIVE EXPENSES	<u>5,450,838</u>	<u>4,036,828</u>
	501,177	394,219
OTHER INCOME	<u>50,865</u>	<u>26,689</u>
	<u>552,042</u>	<u>420,908</u>
OTHER EXPENSES		
Depreciation	50,206	45,198
Amortization of goodwill	883	883
Interest on long term debt	25,006	15,840
Other interest	<u>37,760</u>	<u>39,292</u>
	<u>113,855</u>	<u>101,213</u>
	438,187	319,695
SHARE OF EARNINGS OF COMPANIES ON EQUITY BASIS	<u>41,068</u>	<u>7,716</u>
CONSOLIDATED INCOME BEFORE INCOME TAXES	479,255	327,411
Income taxes	<u>105,519</u>	<u>65,758</u>
CONSOLIDATED INCOME	373,736	261,653
MINORITY INTEREST	<u>100,363</u>	<u>78,432</u>
CONSOLIDATED NET INCOME FOR THE YEAR	273,373	183,221
Retained earnings, beginning of year	<u>692,764</u>	<u>509,543</u>
	966,137	692,764
Dividends	<u>35,020</u>	<u>-</u>
RETAINED EARNINGS, END OF YEAR	<u>\$ 931,117</u>	<u>\$ 692,764</u>
BASIC EARNINGS PER SHARE	<u>\$ 0.39</u>	<u>\$ 0.26</u>

INDEPENDENT FACTORS LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 1985

	<u>1985</u>	<u>1984</u>
SOURCE OF FUNDS		
Operations		
Net income for the year	\$ 273,373	\$ 183,221
Items not involving funds		
Amortization of goodwill	883	883
Depreciation	50,206	45,198
Increase in minority interest	100,363	78,432
	<u>424,825</u>	<u>307,734</u>
Increase in long term debt	97,565	-
Increase in minority interest	300	-
Proceeds from sale of treasury shares	147,560	11,730
	<u>670,250</u>	<u>319,464</u>
APPLICATION OF FUNDS		
Increase in long term investments	7,626	216,395
Increase in fixed assets	178,413	15,718
Reduction of long term debt	-	42,552
Purchase of Class "A" common shares	27,893	-
Payment of dividend	35,020	-
	<u>248,952</u>	<u>274,665</u>
INCREASE IN WORKING CAPITAL	421,298	44,799
Working capital, beginning of year	<u>1,419,435</u>	<u>1,374,636</u>
WORKING CAPITAL, END OF YEAR	<u>\$1,840,733</u>	<u>\$1,419,435</u>
Represented by		
Current assets	\$2,909,292	\$2,271,951
Current liabilities	<u>1,068,559</u>	<u>852,516</u>
	<u>\$1,840,733</u>	<u>\$1,419,435</u>

INDEPENDENT FACTORS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 1985

1. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the Company:

(a) Principles of Consolidation

These consolidated financial statements include the accounts for all subsidiary companies. The operating results of all subsidiaries are included in the consolidated financial statements from the dates of acquisition and the acquisitions are accounted for by the purchase method. All significant inter-company transactions and accounts have been eliminated.

(b) Marketable Securities

Marketable securities are stated at cost. Their market value at 31 December 1985 was \$7,003 (1984 - \$13,282).

(c) Inventories

Inventories are stated at the lower of cost and net realizable value with cost being determined on the first-in, first-out basis.

(d) Long Term Investments

Investments in companies in which the Company has significant influence are accounted for by the equity method, by which the original cost of the shares is adjusted for the Company's share of earnings or losses since significant influence was acquired.

(e) Fixed Assets

Fixed assets are stated at cost and depreciation is provided using the diminishing balance method at the following rates:

Buildings	-	5 and 10%
Equipment	-	20%
Computer equipment	-	30%
Automotive equipment	-	30%

(f) Goodwill

The amounts by which the purchase price of the subsidiary companies exceeds the net identifiable assets acquired is treated as goodwill and is amortized over its estimated useful life of thirty years using the straight line method.

INDEPENDENT FACTORS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 1985

2. FIXED ASSETS

	1985		1984	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Land	\$102,815	\$ -	\$ 42,815	\$ -
Buildings	548,874	181,801	518,874	159,300
Equipment	206,128	111,633	142,285	96,730
Computer equipment	26,280	19,970	26,280	17,266
Automotive equipment	93,089	55,367	68,519	45,269
	<u>977,186</u>	<u>368,771</u>	<u>798,773</u>	<u>318,565</u>
Cost less accumulated depreciation	<u>\$608,415</u>		<u>\$480,208</u>	

3. GOODWILL

	1985	1984
Cost	\$ 26,500	\$ 26,500
Less accumulated amortization	<u>2,649</u>	<u>1,766</u>
	<u>\$ 23,851</u>	<u>\$ 24,734</u>

4. BANK INDEBTEDNESS

	1985	1984
Bank loans	\$302,159	\$197,364
Overdraft	<u>29,882</u>	<u>-</u>
	<u>\$332,041</u>	<u>\$197,364</u>

The bank loans are secured by a general assignment of book debts, inventories and proceeds of certain fire and life insurance policies owned by the Company and subsidiaries.

INDEPENDENT FACTORS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 31 DECEMBER 1985

5. LONG TERM DEBT

	<u>1985</u>	<u>1984</u>
Bank loans, repayable in monthly instalments of \$8,903 plus interest at prime plus 1%, secured by a demand debenture and collateral mortgage on land and buildings	\$289,452	\$119,425
Due to shareholder, repayable at \$1,072 monthly plus interest at prime plus 2%	22,098	31,529
Due to shareholder, repayable in annual instalments of \$5,300, non-interest bearing	-	26,500
	<u>311,550</u>	<u>177,454</u>
Current portion	<u>85,595</u>	<u>49,064</u>
	<u>\$225,955</u>	<u>\$128,390</u>

Principal payments due in the next five years are as follows:

1986	-	\$ 85,595
1987	-	79,619
1988	-	70,308
1989	-	67,465
1990	-	<u>8,563</u>
		<u>\$311,550</u>

6. SHARE CAPITAL

		<u>1985</u>	<u>1984</u>
Authorized			
3,000,000	Class "A" common, voting shares of no par value		
5,000,000	Class "B" common, non-voting shares of no par value		
400,000	8% non-cumulative, redeemable preferred shares of par value of \$5 each		
Issued			
707,304	Class "A" common, voting shares (1984 - 693,714 shares)	<u>\$1,192,661</u>	<u>\$1,117,019</u>

During the year 56,502 (1984 - 5,346) common shares were issued for a cash consideration of \$147,560 (1984 - \$11,730). During the year 42,912 (1984 - nil) common shares were repurchased for a cash consideration of \$27,893 (1984 - \$nil).

INDEPENDENT FACTORS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 1985

7. CONTRIBUTED SURPLUS

During the year, the Company has realized a contributed surplus of \$44,025 upon purchase and cancellation, at a price of \$27,893, of 42,912 Class "A" common shares.


8. CONTINGENT LIABILITIES

The Company is contingently liable as guarantor of bank advances to related third parties of up to \$185,000 (1984 - \$185,000). Advances as at 31 December 1985 amounted to \$33,544 (1984 - \$13,040).

9. DIRECTORS REMUNERATION

Remuneration to directors of the Company amounted to \$2,000 (1984 - \$1,500) during the year.

Remuneration to directors who are active managers of the Company's subsidiaries amounted to \$127,926 (1984 - \$110,998) during the year.



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INDEPENDENT FACTORS LTD. INFORMATION CIRCULAR

The information contained herein is given as at the 21 day of April 1986, and is supplied in connection with the solicitation by the management of Independent Factors Ltd. (hereinafter called "the Company") of Proxies to be used at the Annual General Meeting of Shareholders of the Company on 24 May 1986, (Herein after called the "Meeting"). The cost of this solicitation of Proxies is borne by the Company.

APPOINTMENT & REVOCATION OF PROXIES

The persons named in the accompanying form of Proxy are proposed directors of the Company. A SHAREHOLDER WHO WISHES TO APPOINT SOME OTHER PERSON TO REPRESENT HIM AT THE MEETING MAY DO SO EITHER BY INSERTING SUCH PERSON'S NAME AND ADDRESS IN THE BLANK SPACE PROVIDED FOR THAT PURPOSE, OR BY COMPLETING ANOTHER PROPER FORM OF PROXY, AND IN EITHER CASE, DEPOSITING THE COMPLETED PROXY WITH THE COMPANY AT:

NATIONAL TRUST COMPANY
10072 JASPER AVE.
EDMONTON ALBERTA
T5J 1V8

ON OR BEFORE 4:30 in the afternoon on Thursday, 15th May 1986; OR WITH THE CHAIRMAN AT THE MEETING.

A person need not be a member of the Company to be appointed proxy.

A Shareholder who has given a Proxy may revoke it either by:

- a) Signing a proxy bearing a later date and depositing it as aforesaid, or;
- b) Signing and dating a written notice of such revocation (in the same manner as an instrument of proxy is required to be executed as is set out in the notes on the Instrument of Proxy herewith,) and either depositing the same with NATIONAL TRUST COMPANY or with the Chairman of the Meeting at the meeting or any adjournment thereof; or,
- c) Attending at the Meeting in person and registering with the Scrutineers, which shall serve as notice of revocation of any Proxy filed, but only as to matters which have not already been dealt with at the meeting.

The Articles of the Company Provide that a vote given in accordance with the terms of the Instrument of Proxy shall be valid notwithstanding the previous death, disability, or incapacity of the Principal, or revocation which has not been received by the Chairman before the vote is given.

USE OF PROXY AND DISCRETIONARY VOTES

A person appointed by Proxy will vote the shares in respect of which he or she is appointed in accordance with the discretion of the appointing shareholder(s). In the absence of such direction and discretion, it is intended that such shares will be voted for the adoption of the Resolutions referred to in the Notice of Meeting accompanying this Information Circular. The enclosed form of Proxy confers discretionary authority with respect to amendments to, or variations in the matters identified in the said Notice of Meeting, and such other matters as may properly come before the Meeting. In the event that any other matter comes before the meeting, persons named in the proxies may vote in accordance with their best judgment on such matters.

VOTING SHARES AND THE PRINCIPAL HOLDERS THEREOF

On the date of the accompanying Notice of Meeting, the Company had outstanding 709 704 Voting Common Class "A" shares, each share carrying the right to one vote, so that the aggregate number of votes attached to outstanding shares is 709 704. According to present information available to the Company, Lawrence Lewin, President and director beneficially owns, 183,367 shares of the Company, representing 26.26% of the Company's issued shares; Tamaran Investments Ltd. a private company controlled by members of the family of Edwin John, Director & Secretary, owns 100,000 shares of the Company's stock, being 14.09% of its issued share capital; and Robert A Kapler, general Manager and a Director of the Company beneficially owns 204,000 shares of the Company's issued shares, being 28.74% of the Company's issued share capital.

Registered shareholders of the Company as of the close of business on 15 May 1986 will be entitled to attend the Meeting and to vote their shares thereat. Any person duly appointed by an Instrument of Proxy will be entitled to vote the shares represented thereby at the Meeting and any adjournment thereof, PROVIDED the said Instrument of Proxy is deposited as aforesaid, or presented to the Chairman at the Meeting.

ELECTION OF DIRECTORS

The Board presently consists of six (6) Directors three of whom are deemed to retire at the Annual Meeting. Each retired director is eligible for re-election. The persons named in the enclosed form of Proxy will vote, unless otherwise directed, for the election of the nominees whose names are set out below. The Management does not anticipate that any of the nominees will be unable to serve as Director of the Company, but if that should occur prior to the Meeting, the persons named in the enclosed form of Proxy reserve the right to vote for another nominee at their discretion. Three Directors will be elected for approx. two year until the 1988 Annual Meeting of the Shareholders. Each Director will hold office until his successor is elected at the appropriate Shareholder's Annual Meeting, unless his office is vacated under the provisions of the Company's Articles or under applicable Laws.

The following table and Notes state the names, addresses, positions with the Company now held, principal occupations and employment, and the dates at which each of the nominees for Director first became a Director of the Company, along with the approximate number of shares beneficially held directly or indirectly by or for each nominee as of the date of the Notice of Annual Meeting.

NOMINEES FOR DIRECTOR-TWO YEAR TERM

Name & Office -----	Principal Occupation Previous Five Years -----	Appointment As Director -----	Shares Owned Beneficially -----
Dennis Lewin Chartered Accountant Edmonton Alta. Treasurer & Director	Self Employed	Dec. 1978	10,835
Joseph Brlekovich Sherwood Park Alta. Director	President & Co- Owner, Troy Oilfield Equipment Ltd	Dec. 1978	500
Robert A Sharp Edmonton Alberta Director	Retired Manager, Trust Company	May 1985	1,500

NOTES:

- a) All nominees for election to the Board of Directors are presently directors of the company;
- b) Members of the family of Lawrence Lewin beneficially own, directly or indirectly, 1,500 shares of the capital stock of the company in addition to that stated above as owned by him;
- c) The information regarding the beneficial ownership of shares of the Company by Directors and Officers of the Company and their immediate families was obtained, where not available from Company records, from the directors.

REMUNERATION OF MANAGEMENT AND OTHERS

The Company paid \$2,000 (1984, \$1,500) as direct remuneration to the directors in 1985. Remuneration to Independent directors as active managers of equity financed companies was \$37,000 in 1985.

APPOINTMENT OF AUDITORS

It is proposed that Dunwoody & Co Chartered Accountants Creston, B C be appointed auditors of the company for the ensuing year, and that the Directors be authorized to set the remuneration of the Auditors.

